

**STATE OF WISCONSIN
DEPARTMENT OF EMPLOYEE TRUST FUNDS
801 West Badger Road
Madison, WI 53702**

CORRESPONDENCE MEMORANDUM

DATE: 8/20/2002

TO: Private Employer Health Care Coverage Plan (PEHCCP) Board Members

FROM: Tom Korpady, Administrator,
Division of Insurance Services

SUBJECT: September 10, 2002 meeting

We've scheduled a meeting of the PEHCCP Board to update you on the current state of the PEHCCP and to discuss where we should go from here.

The department recognizes the critical need of small employers and employees for relief from the ever-increasing cost of health insurance. We are sympathetic to this problem and know that it is getting worse, not better. At the same time, as discussed by this Board in the past, successful implementation may do little to alleviate this particular problem. Even were the plan implemented, we may do little more than provide some price stability and offer more choices. There is little likelihood that we would be able to offer lower premium costs.

As you may be aware, the recently passed budget repair bill included \$850,000 in funding for the program, but did not include any of the insurance market reform measures that we suggested were necessary to proceed with implementation of this program (see summary from Pam Henning). You may also remember that all of the staff has left to take other positions when the funding looked to be in jeopardy. While funding has been provided under the bill, it is important to remember that it is in the form of a loan from the general fund, and we are expected to pay it back. As we look to the likely scenarios, however, there seems little chance that we could attract sufficient participants to become self-supporting in the foreseeable future. Therefore, in considering any course of action, we need to acknowledge that continued general purpose revenue subsidies will be necessary in order to fund the operation of this program.

We have identified several options that we'd like to discuss. There may be other alternatives or variations on these, and we welcome any ideas that you may have.

- **Request repeal of the program.**

Without market reform, we believe that this program will not work, and that insurers and administrators will continue to be unwilling to participate. With the fiscal situation of the state, it does not seem judicious to be spending money with very little real chance for success. Additionally, health insurance rates continue to increase at double-digit levels, making coverage even more expensive.

- **Use some of the funds to hire a consultant to analyze what would be needed to implement this program.**

We are comfortable that our understanding of the market and what is needed to make the PEHCCP operational is accurate. However, a recognized expert may give us some new options, or in the least confirm our beliefs. This approach would require the expenditure of some of the funding.

- **Resubmit the recommended market reform changes to the Legislature, and do not proceed with further implementation activities unless they become law.**

While the rate band restrictions passed the Legislature in last year's budget bill, the Governor vetoed them. Similar provisions were in the Senate version of the budget repair bill, but were subsequently removed in conference committee action. It is unlikely that market reform measures will pass without endorsement by insurers, and it is unlikely that insurers will support these changes.

- **Attempt to contract out the entire operation including the policy and design activities previously handled by department staff.**

This alternative would most directly address the concerns that we have had about the use of trust fund dollars to fund non-trust activities by department staff. It would, however, limit access to some of the expertise that was used as a justification to place this program in this department. While there is more money available now, it may be just as difficult to find an administrator that is willing to take on the whole program as it was to find one willing to accept just the administration. Further, it is unlikely that an outside administrator would have any greater success than we did in getting insurers to participate.

- **Hire new staff and re-release the Request for Proposals (RFP).**

This alternative would require the greatest use of the \$850,000 allocated to the program. Staffing costs are estimated at over \$200,000 per year, and it will be very difficult to find qualified candidates to replace the knowledge of the staff that we lost. An RFP process is time consuming and requires a substantial understanding of the bidding process and the program requirements. If we get no responses to a re-released RFP, we will have incurred substantial costs and be no further along than we are now.

You may have other approaches that we would be interested in hearing and discussing at this upcoming meeting. We have a great deal of respect for the knowledge and dedication of this Board, and we are looking to you for direction and ideas.